



Our approach to tax

INTRODUCTION

To improve the transparency of business tax affairs, the Board of Taxation has designed a Tax Transparency Code (TTC) that outlines a set of principles and minimum standards to guide the disclosure of tax information by large businesses, such as Sydney Airport.

Sydney Airport strives to be open and transparent in all our dealings with securityholders, the public and other stakeholders. As part of our commitment to transparency, Sydney Airport has voluntarily adopted the TTC and will publicly release a Tax Governance Statement (the Statement) for each year ending 31 December. The Statement seeks to provide a greater understanding of Sydney Airport's tax structure and Tax Governance Policy.

SYDNEY AIRPORT OVERVIEW

Sydney Airport is Australia's busiest airport. In 2016 the airport connected 41.9 million passengers to 51 international, 21 domestic interstate and 22 regional destinations.

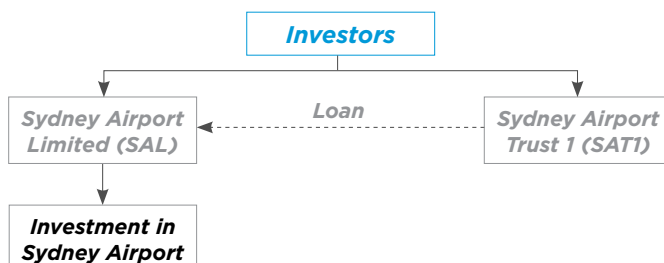
Sydney Airport is a major employer in NSW and facilitates \$30.8 billion in economic activity a year. This contribution is equivalent to 6.4% of the NSW economy which translates into more than 306,700 direct and indirect jobs, equivalent to 8.9% of NSW employment. Around 29,000 of these jobs are on the airport itself.

SYDNEY AIRPORT'S TAX STRUCTURE

ASX-Listed Sydney Airport (the Group) is comprised of Sydney Airport Limited (SAL) and Sydney Airport Trust 1 (SAT1). SAL shares and SAT1 units are stapled, quoted and traded as a single security on the ASX (ASX: SYD).

When an investor purchases a SYD security they are purchasing one share in SAL and one unit in SAT1 in the same transaction.

The following diagram illustrates a summarised corporate structure of SYD and its investment in Sydney Airport.



SAL and SAT1 and their respective subsidiaries are distinct entities for tax purposes. Their tax profiles are described separately in the Statement below.

SYDNEY AIRPORT LIMITED TAX STRUCTURE

SAL and its wholly owned subsidiaries have formed a Tax Consolidated Group (SAL TCG) for Australian income tax purposes.

SAL TCG is a tax resident of Australia and does not own any foreign subsidiaries and foreign assets and has no dealings with foreign related parties.

As head of the SAL TCG, SAL is liable for Australian corporate tax of 30% in respect of its activities, which comprise the ownership and operation of Sydney Airport.

SAL TCG was not liable to pay income tax in relation to 2015 and 2016, as its net income was fully offset by tax losses incurred from previous years. Under Australian tax law, unused tax losses can be carried forward and offset against future income. Accordingly, SAL TCG will pay income tax once its tax losses are fully used.

SAL TCG has carried forward tax losses of \$1.2 billion at 31 December 2016 (2015: \$1.4 billion).

As SAL is a company, any tax paid on its earnings can be allotted to shareholders through their receipt of franking credits attached to dividends.

Australian tax resident shareholders are subject to income tax at their applicable tax rate (for example, up to 49% for individuals, 30% for companies and 15% for superannuation funds) on their SAL dividends received. Tax payable may be reduced by any franking credits attached to the dividends.

Foreign tax resident shareholders are subject to withholding tax (of up to 30%) deducted from the unfranked portion of SAL dividends received. SAL remits withholding tax collected to the Australian Taxation Office (ATO).

Foreign tax resident shareholders are not subject to withholding tax on the franked portion of SAL dividends received. However, they are not able to claim any franking credits that may be attached to the dividends.

For a reconciliation of Sydney Airport accounting profit to tax expense and income tax payable including the identification of temporary and non-temporary differences, refer to the link below to Note 12 of the Sydney Airport Financial Report for the Year Ended 31 December 2016.

<https://www.sydneyairport.com.au/investor/investors-centre/reports-presentations-and-agm/sydney-airport-annual-report-2016>



The following table summarises SAL's tax paid / remitted for the year ended 31 December 2016:

Tax	Authority (\$m)			
	Federal	State	Local	Total
Income Tax ¹	-	-	-	-
Employer / Payroll Taxes ²	0.3	4.1	-	4.4
Property Taxes ³	2.9	-	3.7	6.6
Total Taxes Paid	3.2	4.1	3.7	11.0
Indirect Taxes ⁴	79.2	-	-	79.2
Employee Taxes ⁵	19.8	-	-	19.8
Total Taxes Remitted	99.0	-	-	99.0

- SAL TCG net income was fully offset by tax losses for the year
- Fringe Benefits Tax on non-cash benefits provided to employees and their associates for the year ended 31 March 2016 and Payroll Taxes for the year ended 30 June 2016
- Ex-gratia Land Tax paid to the Federal Government and Local Council rates
- Goods and Services Tax on sales offset by input tax credits claimed on expenses remitted to the ATO
- Pay As You Go Income Tax and other collections withheld from employee earnings and remitted to the ATO for the year ended 30 June 2016

SYDNEY AIRPORT TRUST 1 TAX STRUCTURE

SAT1 is a non-trading, Division 6 "flow through" trust for Australian income tax purposes. This means SAT1 is not directly liable for payment of income tax provided its net income and any assessable realised capital gains are fully distributed to its unitholders each year. SAT1's main source of income is from a loan issued to SAL.

Broadly, the net income of SAT1 is taxed in the hands of its unitholders through any SAT1 trust distributions they receive.

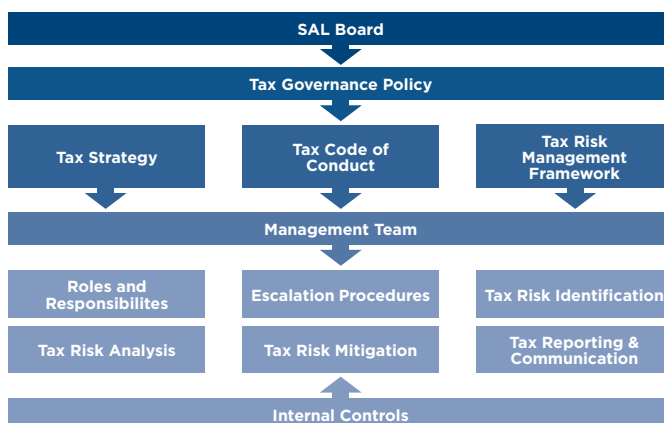
Australian tax resident unitholders are subject to income tax at their applicable tax rate (for example, up to 49% for individuals, 30% for companies and 15% for superannuation funds) on SAT1 trust distributions received.

Foreign tax resident unitholders are currently subject to interest withholding tax of 10% deducted from SAT1 trust distributions. SAT1 remits withholding tax collected to the ATO.

SYDNEY AIRPORT LIMITED'S TAX GOVERNANCE POLICY

SAL is committed to acting with integrity and transparency in all tax matters. SAL manages its tax affairs through the operation of the SAL Board endorsed Tax Governance Policy (the Policy) described below, which consists of SAL's:

- Tax Strategy;
- Tax Code of Conduct; and
- Tax Risk Management Framework.



TAX STRATEGY

SAL's Tax Strategy ensures tax risks are considered as part of the assessment of any transaction.

A conservative approach to the assessment and management of tax risks is aided by maintaining open and constructive relationships with all internal and external stakeholders, including the relevant revenue authorities.

TAX CODE OF CONDUCT

SAL's Tax Code of Conduct encompasses its overall tax objective, which is to ensure compliance with all statutory obligations for the SAL TCG.

TAX RISK MANAGEMENT FRAMEWORK

SAL's Tax Risk Management Framework (the Framework) defines the practical approach followed by management to manage SAL's tax risk in line with the overall objectives of the Policy.

The Framework defines Management Team roles, responsibilities and escalation protocols. It also guides management on how to appropriately identify, analyse, mitigate and report tax risks.

Further, a robust set of internal controls has been put in place including periodic reconciliation, information technology systems and provision for external advisor review, including internal and external audit to ensure the Framework achieves its ultimate aim, to effectively address tax risk.

SYDNEY AIRPORT TRUST 1'S TAX GOVERNANCE POLICY

The Trust Company (Sydney Airport) Limited (TTCSAL) is the Responsible Entity of SAT1. TTCSAL is a wholly owned subsidiary of Perpetual Limited (Perpetual). Accordingly, TTCSAL has adopted Perpetual's tax strategy and governance policy.

Perpetual has voluntarily adopted the Tax Transparency Code and publically releases an Annual Tax Report for each year ending 30 June.

Perpetual's tax strategy is controlled and governed by the Perpetual Board through the Group's Tax Risk Management Framework with a focus on maintaining strong tax compliance disciplines across the Perpetual Group.

Perpetual has a strong commitment to the highest standards of corporate governance and is specifically committed to being transparent about their tax affairs.

For further details on Perpetual's current approach to tax strategy and governance, refer to the Perpetual Tax Report for the Year Ended 30 June 2016, which can be found in the Corporate Governance section of Perpetual's website.

<https://www.perpetual.com.au/About/Corporate-Governance>